

News Release

Contacts:

Missy DeAngelis

Guy Carpenter
1.917.937.3118

missy.deangelis@guycarp.com

Jennifer Ainslie

Guy Carpenter
44.207.357.2058

jennifer.ainslie@guycarp.com

Kate Dillon

Prosek Partners
1.212.279.3115 ext. 115

kdillon@prosek.com

The Hurricane Seasons that Changed the Insurance Industry: Guy Carpenter Series Details Impact of Landmark 2004 & 2005 Hurricane Seasons

*Part II of Series Examines the 2005 Season and the Changes to (Re)insurance Practices,
Catastrophe Modeling and Florida Hurricane Catastrophe Fund*

New York, October 25, 2014 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), today released Part II of the two-part Ten-Year Retrospective of the 2004 and 2005 Atlantic Hurricane Seasons. Part II focuses on the 2005 hurricane season and the cumulative impacts of both the 2004 and 2005 seasons on the (re)insurance industry as well as the changes made in response to these two landmark seasons from both catastrophe model vendors and rating agencies.

"The 2005 Atlantic hurricane season was the most active season we've experienced on record, bringing 27 named storms. Of those, four major hurricanes made landfall in the United States," said James Waller, PhD, Research Meteorologist for GC Analytics. "The most memorable of these was Hurricane Katrina - a storm which proved to be not only the deadliest US hurricane in more than seventy years, but the costliest of all time."

"The combined impact of the 2004 and 2005 seasons ushered in a new era of increased focus on the potential for catastrophic loss in the U.S., which led to an increased focus on incorporating a strong understanding of property catastrophe risk as part of an overall management strategy," said Sherry Thomas, Managing Director, Head of Catastrophe Management - Americas. "In the past ten years, insurers and reinsurers alike have worked to improve data quality and completeness, to re-evaluate their policy language and risk appetite, and to increase their understanding of the science behind catastrophe models. Ultimately, this leads to insurers making increasingly better informed risk decisions, and using catastrophe models as one of several inputs to their view of risk."

2004 & 2005 Seasons: Impact to the (Re)insurance Industry

The intense damage caused by wind and storm surge flooding, particularly from Hurricanes Katrina and Rita, often led to "coverage leakage" where insurers were forced to pay flood claims on wind policies. As a response, many insurance companies revisited their policy wording on flood coverage, with some choosing to explicitly exclude all flood or storm-surge flood from their contracts.

Wind underwriting guidelines also became more stringent due to a combination of higher deductibles and the constriction of maximum wind limits. This reduced capacity for wind coverage led to rate increases for both personal and commercial lines by as much as 20 percent in 2006. Finally, the industry experienced significant upward pressure on both estimated catastrophe exposure and pricing due to across-the-board adoption by reinsurers of anticipated changes in rating agency requirements and catastrophe models.

The Hurricane Seasons that Changed the Insurance Industry: Guy Carpenter Series Details Impact of Landmark 2004 & 2005 Hurricane Seasons

October 25, 2014

Impact to Catastrophe Models

Major updates to both internal and vendor U.S. catastrophe models were made as a result of lessons learned during the 2004 and 2005 seasons as in many cases, models significantly underestimated the actual experienced claim losses. This disconnect also highlighted deficiencies in the collecting and entering of exposure data into the catastrophe models. As a result, many companies instituted initiatives to review and augment the accuracy and completeness of their catastrophe modeling data.

Florida Hurricane Catastrophe Fund Changes (FHCF)

As a result of additional legislative requirements for the FHCF in 2006, combined with significant hurricane activity in 2004 and 2005, the FHCF experienced a funding shortfall for the first time in its history. The unprecedented loss activity stemming from these seasons plus the compounding impacts of other industry changes caused insurance premiums to increase in Florida.

TAGS/KEYWORDS

Guy Carpenter, Hurricane Katrina, Hurricane Rita, Hurricane Wilma, James Waller, Sherry Thomas, GC Analytics, Catastrophe Modeling, Florida Hurricane Catastrophe Fund

About Guy Carpenter

Guy Carpenter & Company, LLC is a global leader in providing risk and reinsurance intermediary services. With over 50 offices worldwide, Guy Carpenter creates and executes reinsurance solutions and delivers capital market solutions* for clients across the globe. The firm's full breadth of services includes line-of-business expertise in agriculture; aviation; casualty clash; construction and engineering; cyber solutions; excess and umbrella; excess and surplus lines; healthcare & life; marine and energy; mutual insurance companies; political risk and trade credit; professional liability; property; retrocessional reinsurance; surety; terrorism and workers compensation. GC Fac® is Guy Carpenter's dedicated global facultative reinsurance unit that provides placement strategies, timely market access and centralized management of facultative reinsurance solutions. In addition, GC Analytics®** utilizes industry-leading quantitative skills and modeling tools that optimize the reinsurance decision-making process and help make the firm's clients more successful. For more information, visit www.guycarp.com and follow Guy Carpenter on Twitter @GuyCarpenter.

[Guy Carpenter](#) is a wholly owned subsidiary of [Marsh & McLennan Companies](#) (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and human capital. [Marsh](#) is a global leader in insurance broking and risk management; [Mercer](#) is a global leader in talent, health, retirement, and investment consulting; and [Oliver Wyman](#) is a global leader in management consulting. With annual revenue exceeding \$12 billion, Marsh & McLennan Companies' 55,000 colleagues worldwide provide analysis, advice, and transactional capabilities to clients in more than 130 countries. The Company prides itself on being a responsible corporate citizen and making a positive impact in the communities in which it operates. Visit www.mmc.com for more information.

*Securities or investments, as applicable, are offered in the United States through GC Securities, a division of MMC Securities Corp., a US registered broker-dealer and member [FINRA/NFA/SIPC](#). Main Office: 1166 Avenue of the Americas, New York, NY 10036. Phone: (212) 345-5000. Securities or investments, as applicable, are offered in the European Union by GC Securities, a division of MMC Securities (Europe) Ltd. (MMCSEL), which is authorized and regulated by the Financial Conduct Authority, main office 25 The North Colonnade, Canary Wharf, London E14 5HS. Reinsurance products are placed through qualified affiliates of Guy Carpenter & Company, LLC. MMC Securities Corp., MMC Securities (Europe) Ltd. and Guy Carpenter & Company, LLC are affiliates owned by Marsh & McLennan Companies. This communication is not intended as an offer to sell or a solicitation of any offer to buy any security, financial instrument, reinsurance or insurance product. **GC Analytics is a registered mark with the U.S. Patent and Trademark Office.

###